

**M e m o r a n d u m**

Date: May 22, 2009

To: Office of the Commissioner

Attention: Commissioner J. A. Farrow

From: **DEPARTMENT OF CALIFORNIA HIGHWAY PATROL**  
Office of Assistant Commissioner, Inspector General

File No.: 005.9968.A13471.010

Subject: FOLLOW-UP REVIEW OF THE 2007 FINANCIAL INTEGRITY AND STATE MANAGERS ACCOUNTABILITY ACT (ADMINISTRATIVE SERVICES DIVISION) AUDIT

On June 8, 2007, the Office of the Commissioner directed the Office of Internal Affairs, Audits and Evaluation Unit, (reorganized under Office of Inspections, Audits Unit) to perform an audit of the California Highway Patrol's (Department) internal control systems. This request was initiated pursuant to the Financial Integrity and State Manager's Accountability (FISMA) Act of 1983, the provisions of which are stated in Government Code Sections 13400 through 13407. The audit scope period covered fiscal year (FY) 2005/06 and FY 2006/07. However, primary testing was conducted during the later FY to provide a current evaluation of internal controls.

Based on the audit of the Department's accounting and administrative controls, the audit revealed the Department has multiple internal controls in place to safeguard state assets. However, although the controls are adequate, weaknesses were observed. The results of the audit were discussed in the 2007 Evaluation of Internal Accounting and Administrative Control Systems Final Report (FISMA final report).

A follow-up review was conducted from November 14, 2008 to December 18, 2008. The objective of this follow-up review was to determine if the Department has implemented the corrective action as indicated in their response to the 2007 FISMA final report as it pertains to the Cash Receipts, Receivables, Purchasing, Revolving Fund, Contracts, and Fixed Assets Cycles. The follow-up review focused on available documentation to evaluate the progress.

It should be noted that the Department has implemented some of the corrective action identified in the final report of the 2007 FISMA. The Office of Inspections validated the corrective action taken has adequately addressed some weaknesses. However, this review indicates there are areas which still require some corrective action that need to be addressed by the Administrative Services Division. The Office of Inspections will evaluate future corrective actions taken on these remaining weaknesses as part of the 2009 FISMA audit.

*Safety, Service, and Security*

Office of the Commissioner

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We appreciate the courtesy, cooperation, and assistance extended to Office of Inspections by the Administrative Services Division. If you have any questions, please contact Roger Ikemoto, Senior Management Auditor at (916) 451-8405.

  
M. C. A. SANTIAGO  
Assistant Commissioner

Attachment

cc: Office of the Assistant Commissioner, Staff  
Administrative Services Division  
Office of Inspections

ADMINISTRATIVE SERVICES DIVISION AUDIT FOLLOW-UP  
DECEMBER 2008

On June 8, 2008, the Office of the Commissioner directed the Office of Internal Affairs, Audits and Evaluation Unit, (reorganized under Office of Inspections, Audits Unit) to perform an audit of the California Highway Patrol's (Department) internal control systems. This request was initiated pursuant to the Financial Integrity and State Manager's Accountability (FISMA) Act of 1983, the provisions of which are stated in Government Code Sections 13400 through 13407. The audit scope period covered fiscal year (FY) 2005/06 and FY 2006/07. However, primary testing was conducted during the later FY to provide a current evaluation of internal controls.

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The objective of this follow-up review was to determine if the Department has implemented the corrective action as indicated in their response to the 2007 FISMA final report to the Cash Receipts, Receivables, Purchasing, Revolving Fund, Contracts, and Fixed Assets Cycles. The follow-up review focused on available documentation to evaluate the progress. This follow-up review was conducted from November 14, 2008 to December 18, 2008.

The review consisted of assessing the corrective actions completed, as documented in the response memorandum. The Office of Inspections, Audits Unit reviewed:

- The cash receipts process in order to evaluate if there was separation of duties.
- The Department's endorsement of checks in order to determine if it was conducted timely.
- A copy of the Transmittal Logs for October and November 2008.
- A copy of various reimbursable services packages.
- A copy of various advance payments from vendors for predetermined services.
- A description of the current project review function regarding the Voyager fuel card.
- Revolving fund checks to determine if revolving fund checks were issued during the state budget impasse.
- A copy of contract payments sent to the State Controller's Office.
- Copies of Statewide Property Inventory reports prepared for 2008.

**CASH RECEIPTS****FINDING 1:**

**The Department lacks separation of duties in its cash receipts process.**

**Condition:**

The cash receipts process does not have adequate separation of duties. As part of the work flow, incoming cash receipts are given to predetermined employee(s) in the Reimbursable Services Unit (RSU) and Cashiering Unit. As part of this process, departmental employee(s) sort the incoming cash receipts prior to them being endorsed, if necessary. RSU employees initiate and prepare invoices as a normal course of duties. RSU employees also receive remittances.

**Criteria:**

Government Code (GC), Section 13403(a)(6) states, the elements of a satisfactory system of internal accounting and administrative control, shall include, but are not limited to an effective system of internal review.

State Administrative Manual (SAM), Section 8080.1 states, a key element in a system of internal control is separation of duties. Employees of units other than the accounting/data processing units should be used, when necessary, to provide separation of duties. No one person will perform more than one of the following types of duties:

- Receiving and depositing remittances
- Initiating or preparing invoices

**Recommendation:**

The Department ensures proper separation of duties.

**Auditor Observation:**

The work flow was evaluated for the cash receipt process and it was determined based on interviews and observation that RSU employees no longer sort the incoming cash receipts.

**Auditor Conclusion:**

Fully Implemented

**FINDING 2:**

**The Department does not endorse checks timely.**

**Condition:**

Checks received by the Department are not restrictively endorsed immediately upon receipt. Specifically, cash receipts received each day are sorted for distribution. The sorting process delays check endorsement from occurring on the day of receipt.

This issue was previously reported in 2005 by the Department of Finance in their Final Report: California Highway Patrol – Internal Control Review.

**Criteria:**

SAM, Section 8023 states, all checks, money orders, and warrants received for deposit will be restrictively endorsed for deposit as soon as possible after receipt, but no later than the end of the working day.

SAM, Section 8034.1 states, agencies will endorse checks, warrants, money orders, and other negotiable instruments on the day they are received. Timely endorsements serve to discourage the use of lost or stolen negotiable instruments by someone other than the state agency.

Highway Patrol Manual (HPM) 11.1, Administrative Procedures Manual, Chapter 4, Miscellaneous Sales, Collections and Refunds, Paragraph 8.a.(8) states, "Immediately upon receipt, all checks, money orders, and warrants shall be restrictively endorsed for deposit with a stamp requisitioned from Business Services Section, Purchasing Services Unit. Money orders and cashier's checks purchased to convert cash collections for transmittal to FMS, Cashiering Unit, must also be exclusively endorsed by authorized personnel."

**Recommendation:** Recommend the Department endorse checks timely.

**Auditor Observation:** Over a six day period, it was observed that the Cashiering Unit endorsed checks by the end of the business day.

**Auditor Conclusion:** Fully Implemented

**FINDING 3:** **The Department's Area offices do not submit cash receipts for deposits timely.**

**Condition:** The Department's Area offices forward payments received for reimbursable agreements to headquarters for deposit. Based on a review of 45 weekly transmittal records for May 2007, testing identified 15 of the 45 transmittal records were deposited between 11 to 19 days after receipt.

The following observations of local departmental commands' weekly transmittal logs for the month of May 2007 revealed:

- One hundred eighty-three (24%) of the 775 weekly transmittal records were not submitted on a weekly basis to Administrative Services Division (ASD).
- Thirty-five (23%) of the 155 Area offices' weekly transmittal records indicate two or more weekly transmittal records were prepared at the same time and 14 Areas did not submit weekly transmittals.

This issue was previously reported in 2005 by the Department of Finance in their Final Report: California Highway Patrol -- Internal Control Review.

**Criteria:**

SAM, Section 8032.1 states, agencies that have safes adequate to safeguard cash will accumulate collections until they amount to \$1,000 in cash or \$10,000 in cash, checks, money orders, and warrants (excluding state warrants and state checks), whichever occurs first, however, accumulated receipts of any amount will not remain undeposited for more than 10 working days.

HPM 11.1, Administrative Procedures Manual, Chapter 4, Miscellaneous Sales – Transmittal of Collections:  
 A) Paragraph 11.a.(1), Transmittal of Collections, Frequency and Maximum Amounts, requires collections for sales, payments, and/or witness fee deposits shall be transmitted to FMS, Cashiering Unit, weekly or when cash exceeds \$1,000, whichever occurs first.  
 B) Paragraph 11a.3. and 4. states: "Close of business each Thursday. The weekly transmittal period for all office begins on Friday and ends at close of business the following Thursday. If maximum amounts are collected before Thursday, a second transmittal shall be prepared for the remaining days."

**Recommendation:** Department should make timely deposits of cash receipts.

**Auditor Observation:** A review of weekly transmittal logs from October and November 2008 revealed 1,158 transmittal logs should have been sent to ASD. Of the 1,158 transmittal logs, 127 transmittals (11%) were not submitted on a weekly basis. From the time of the initial 2007 FISMA report to this follow-up review, the Department has improved on this process from 24% to 11%.

**Auditor Conclusion:** Partially Implemented

## RECEIVABLES

**FINDING 1:** The Department's Area offices submit reimbursable services packages untimely and incomplete.

**Condition:** A review of 67 reimbursable service invoices revealed Area offices submitted 21 billing packages from 31 to 265 days after the date when the Department provided services. Additionally,

the following two observations were made regarding Area offices:

- A review of seven Safety Services invoices and supporting documents, field commands submitted incomplete billing packages, incomplete forms or missing documents.
- A review of 20 DUI Costs Recovery services invoices and supporting documents revealed Area offices submitted 17 incomplete billing packages.

**Criteria:**

GC, Section 13403(a)(4) and (6) states, the elements of a satisfactory system of internal accounting and administrative control, shall include, but are not limited to, the following: An established system of practices to be followed in performance of duties and functions in each of the state agencies; and an effective system of internal review.

HPM 11.1, Administrative Procedures Manual, Chapter 20, DUI Cost Recovery Program, Paragraph 8 states, "Fiscal Management Section (FMS) will send quarterly reports to field commands. These reports are designed to assist in the monitoring and timely submission of the command's CHP 735, Incident Response Reimbursement Statement."

Paragraph 4.b.(1)(a) and (b) states, "Completed CHP 735s, Incident Response Reimbursement Statements, based on section A (refer to Annex B) shall be forwarded to FMS, Reimbursable Services Unit within ten business days of one of the following dates:

- a) The Blood Alcohol Concentration (BAC) results of .08% or greater are received.
- b) The date BAC results of .04% or greater are received for a commercial driver."

HPM 11.1, Administrative Procedures Manual, Chapter 10, Subpoenas/Subpoenas Duces Tecum Compliance Criminal/Civil Appearances, Paragraph 14.b.(1) states, "The CHP 90 shall be prepared in duplicate. The original along with the related travel expense claim and subpoena (or copy thereof) shall be submitted to the Accounting Section within 24 hours. The duplicate shall be retained in the command file."

HPM 11.1, Administrative Procedures Manual, Chapter 20, DUI Cost Recovery Program, Paragraph 6, FMS Billing Procedures states, "FMS shall review all CHP 735, Incident Response Reimbursement Statement, forms received for completeness of information. Forms that do not contain sufficient information for invoicing an offender shall be returned to the issuing Area office. When the CHP 735,

Incident Response Reimbursement Statements, information is complete, FMS shall prepare an invoice.”

HPM 11.1, Administrative Procedures Manual, Chapter 6, Reimbursable Services, Paragraph 6.e.(2) states, “If a statewide agreement is in effect for the state agency requesting services, a CHP 312, Safety Services Program Task Order, CHP 313, Safety Services Program Daily Report, along with the CHP 467, Billing Memorandum - Reimbursable Services, shall be prepared.”

**Recommendation:** The Department should ensure Area offices submit timely and complete reimbursable services packages.

**Auditor Observation:** The auditor reviewed 25 safety services invoices for timeliness and completeness and found no discrepancies.

The auditor reviewed 15 DUI Cost Recovery program invoices for timeliness and determined 11 invoices were not received timely.

**Auditor Conclusion:** Partially Implemented. Since the safety services invoices were compliant, future evaluation and comment will only be of the DUI Cost Recovery program invoices.

**FINDING 2:** **The Department provided services without obtaining advance payments from vendors for predetermined selected services.**

**Condition:** Based on a review of Miscellaneous Reimbursable Services, there were six instances out of eight in which advance payments were not obtained from the vendors prior to the Department providing services, i.e., Movie Detail, Wide Loads Escort, and Special Events.

**Criteria:** GC, Section 13403(a)(2), (4) and (6) states, the elements of a satisfactory system of internal accounting and administrative control, shall include, but are not limited to, the following: A plan that limits access to state agency assets to authorized personnel who require these assets in the performance of their assigned duties; an established system of practices to be followed in performance of duties and functions in each of the state agencies; and an effective system of internal review.

HPM 11.1, Administrative Procedures Manual, Chapter 6, Reimbursable Services. Paragraph 5.b.(3), Movie Detail, Wide Load Escort, and Special Events states, “Based on the cost estimates, the command will collect the advance payment for



services to be rendered for the amount indicated on the CHP 464.”

**Recommendation:** Department should receive advance payments for its predetermined selected services.

**Auditor Observation:** A review of 15 determined services invoices revealed advance payments were received for all services.

**Auditor Conclusion:** Fully Implemented

### **PURCHASING**

**FINDING 1:** **The Department does not review its Voyager fuel card invoices prior to payment.**

**Condition:** The Department does not have mechanisms in place to examine its Voyager fuel card purchases and billing invoices for accuracy or improprieties. When the Department receives its billing statements, the billing statements are scheduled for payment using the revolving fund. The Department is currently working on developing review mechanisms for the examination of Voyager fuel card purchases.

**Criterion:** GC, Section 13403(a)(3) and (6) states, the elements of a satisfactory system of internal accounting and administrative control, shall include, but are not limited to, a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures, and an effective system of internal review.

**Recommendation:** The Department should review its Voyager fuel card invoices.

**Auditor Observation:** Fleet Operations Section has an undocumented informal process in place. However, a formalized process is expected by the end of the first quarter in 2009.

**Auditor Conclusion:** Partially Implemented

### **REVOLVING FUND**

**FINDING 1:** **The Department issued travel advances during the state budget impasse.**

**Condition:**

The Department issued travel advances prior to the enactment of the Budget Act for FY 2007/2008. On July 2, 2007, the Department of Finance (DOF) issued Budget Letter 07-11 which states: "... Office Revolving Fund (ORF) disbursements are prohibited for fiscal year 2007-2008 payments until the 2007 Budget Act becomes effective. Government Code Section 16401 requires that all ORF disbursements be in accordance with law. Until there is a 2007 Budget Act, there is no spending authority for any 2007-08 related disbursements."

However, the Budget Letter 07-11 provides two exceptions regarding the use of the revolving fund during the budget impasse. The exceptions are as follows:

- Disbursements for the prior year may be allowable during this time period.
- Employees subject to the Fair Labor Standards Act must be compensated for work performed.

Additionally, the Office of the Governor issued Executive Order S-09-07 on June 25, 2007, providing a third exception. Under this Executive Order, the Governor ordered affected state agencies to provide assistance to the County of El Dorado with the Angora Fire.

A review of 24 travel advances requested and paid during the state budget impasse revealed none of them qualified under the above exceptions.

**Criteria:**

SAM, Chapter 8100, Section 8110, Permissible Uses states, "Revolving fund disbursements made prior to the enactment of the related Budget Act are not in accordance with Government Code Section 16401. In the time period after June 30 and prior to enactment of the current year Budget Act, proper revolving fund disbursements for the prior year may be allowable; revolving fund disbursements for the current year are not."

Budget Letter 07-11, dated July 2, 2007, regarding prohibition of ORF disbursements until the Budget Act becomes effective.

Executive Order S-09-07 on June 25, 2007, issued from the Office of the Governor. Under this Executive Order, the Governor ordered affected state agencies to provide assistance to the County of El Dorado with the Angora Fire.

**Recommendation:**

The following is recommended:

- 1) Based on current information, the Department should not issue any travel advances during a budget impasse unless it meets an exception, and
- 2) If the Department believes it needs to issue travel advances during a budget impasse (such as dignitary protection), the Department should request and obtain required approval.

**Auditor Observation:** In reviewing the checks issued from the Revolving Fund during the time of the 2008 budget impasse, the Department issued no travel advances or checks during the budget impasse.

**Auditor Conclusion:** Fully Implemented

**FINDING 2:** **The Department does not clear travel advances in a timely manner.**

**Condition:** As of July 31, 2007, the Department's outstanding travel advance report (Dunning Letter Report) had numerous outstanding travel advances. The Department had 82 outstanding travel advances out of 563 travel advances over 60 days old with no activity. Additionally, 28 travel advances are dated in 2006 or later with outstanding balances.

**Criteria:** SAM, Section 8116.2 states:

- "1. A properly prepared TEC to substantiate the travel expenses must be submitted as soon as possible after the trip(s) or at least once a month.
2. If the travel advance exceeds the substantiated expensed, the employee must submit a check or money order with the TEC to return the excess travel advance amount."
- "4. A periodic statement must be sent no less frequently than bi-monthly to notify employees who have travel advances but have not submitted a TEC to substantiate the travel expenses and/or have not returned any excess travel advance amount."

SAM, Section 8116.3 states:

- "1. If an employee does not submit TECs to substantiate the travel expenses within 30 calendar days of the periodic statement date, the total travel advance amount must be deducted from the next regular payroll warrant(s).
2. If an employee does submit TECs within 30 calendar days of the periodic statement, but does not return any excess travel advance amount within the same 30 calendar days, the excess travel advance amount must be deducted from the next regular payroll warrant(s).

3. If the employee has payroll direct deposit, the periodic statement must notify the employee that if the 30 calendar days requirement is not satisfied, the direct deposit will be cancelled and the payroll deduction for the travel advance amount will be made in the next regular payroll warrant(s)."

**Recommendation:** The Department should clear travel advances timely.

**Auditor Observation:** As of January 5, 2009, the Department had 175 travel advances outstanding. When compared to July 31, 2007, this is an improvement since at that time the Department had 563 travel advances outstanding. Presently, all outstanding travel advances were being actively pursued for collection and only two were older than one year.

**Auditor Conclusion:** Fully Implemented

## **CONTRACTS**

**FINDING 1:** **The Department does not pay invoices timely for service requests.**

**Condition:** Twenty invoice payments out of 34 tested (for service requests) revealed they were not paid within 45 days of the receipt. It appears the Department's invoice approval process for service requests requires many review points. This process appears to hinder timely payments.

**Criteria:** GC, Section 927 requires the Department to pay invoices within 45 days of receipt, or automatically calculate and pay the appropriate late payment penalties as specified in this chapter.

GC, Section 13403(a)(3) and (6) states, the elements of a satisfactory system of internal accounting and administrative control, shall include, but are not limited to, a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures, and an effective system of internal review.

HPM 11.1, Chapter 24, Payment of Invoices, says, "Government Code Section 927 requires the Department to pay invoices within 45 days of receipt. Failure to meet the provisions of the legislation will result in the Department paying interest penalty charges."

**Recommendation:** The Department should review its internal process for paying invoices from service requests to ensure timely payment.

**Auditor Observation:** A review of 80 invoices revealed 27 invoices (34%), which were under \$1,700 were paid late. Of the late paid invoices, none had evidence that the invoice was protested and 13 invoices had to be processed through Facilities Section.

**Auditor Conclusion:** Partially Implemented

### **FIXED ASSETS**

**FINDING 2:** The Department provided no evidence that it submits yearly information to the Department of General Services for its Statewide Property Inventory.

**Condition:** The Department receives information from the Department of General Services (DGS) regarding its real property assets. The Department's Fiscal Management Section reconciles the information provided by DGS and forwards this information to the Facilities Section. Facilities Section has not provided evidence that it provided the required report to the DGS for inclusion in the Statewide Property Inventory (SPI) as required.

**Criteria:** SAM, Section 1335.1, states, "State agencies that acquire, encumber, or dispose of real property (other than the Department of Transportation and the University of California) are required to provide information to DGS for inclusion in the Statewide Property Inventory (SPI) and routing to the Secretary of State Archives."

**Recommendation:** The Department should provide DGS with information for its SPI and retain a copy.

**Auditor Observation:** The Department provided DGS with the 2007 and 2008 SPI report.

**Auditor Conclusion:** Fully Implemented

The Department implemented some corrective actions identified in the final report of the 2007 FISMA report. As part of the follow-up review, the Office of Inspections held discussions with the parties involved concerning the specific actions taken to implement recommendations from the initial audit. This was supplemented by an examination of records.

A review of the documents disclosed the Department implemented some corrective actions. The Office of Inspections validated the corrective actions taken adequately addressed several of the weaknesses. However, some of corrective actions still need to be addressed and others require verification as part of the 2009 FISMA before the 2007 FISMA report can be closed. Nevertheless, we are pleased to report the ASD has taken proactive actions to adequately resolve many of the findings identified in the original FISMA audit report.